New Zealand Equivalent to IFRIC Interpretation 20

Stripping Costs in the Production Phase of a Surface Mine (NZ IFRIC 20)

Issued December 2011 and incorporates amendments to 31 January 2019

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Interpretation is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

ISBN 978-1-927174-59-3

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New Zealand Equivalent to IFRIC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* (NZ IFRIC 20) is set out in paragraphs 1–16 and Appendices A–B. NZ IFRIC 20 is accompanied by an IFRIC Basis for Conclusions.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

Reduced Disclosure Regime

Tier 2 for-profit entities must comply with all the provisions in NZ IFRIC 20.

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Stripping Costs in the Production Phase of a Surface Mine (NZ IFRIC 20)

References

- New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (NZ *Framework*)[1]
- NZ IAS 1 *Presentation of Financial Statements*
- NZ IAS 2 *Inventories*
- NZ IAS 16 *Property, Plant and Equipment*
- NZ IAS 38 *Intangible Assets*

Background

1 In surface mining operations, entities may find it necessary to remove mine waste materials ('overburden') to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'.

2 During the development phase of the mine (before production begins), stripping costs are usually capitalised as part of the depreciable cost of building, developing and constructing the mine. Those capitalised costs are depreciated or amortised on a systematic basis, usually by using the units of production method, once production begins.

3 A mining entity may continue to remove overburden and to incur stripping costs during the production phase of the mine.

4 The material removed when stripping in the production phase will not necessarily be 100 per cent waste; often it will be a combination of ore and waste. The ratio of ore to waste can range from uneconomic low grade to profitable high grade. Removal of material with a low ratio of ore to waste may produce some usable material, which can be used to produce inventory. This removal might also provide access to deeper levels of material that have a higher ratio of ore to waste. There can therefore be two benefits accruing to the entity from the stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods.

5 This Interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

Scope

NZ 5.1 This Interpretation applies to Tier 1 and Tier 2 for-profit entities.

6 This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs').

[1] The conceptual framework that was in effect when the IASB developed IFRIC 20 was the IASB's *Conceptual Framework for Financial Reporting,* issued in 2010. IFRIC 20 refers to that framework. The equivalent New Zealand pronouncement was the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting 2010.*

Issues

7 This Interpretation addresses the following issues:

(a) recognition of production stripping costs as an asset;

(b) initial measurement of the stripping activity asset; and

(c) subsequent measurement of the stripping activity asset.

Consensus

Recognition of production stripping costs as an asset

8 To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of NZ IAS 2 *Inventories*. To the extent the benefit is improved access to ore, the entity shall recognise these costs as a non-current asset, if the criteria in paragraph 9 below are met. This Interpretation refers to the non-current asset as the 'stripping activity asset'.

9 An entity shall recognise a stripping activity asset if, and only if, all of the following are met:

(a) it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;

(b) the entity can identify the component of the ore body for which access has been improved; and

(c) the costs relating to the stripping activity associated with that component can be measured reliably.

10 The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset. In other words, the stripping activity asset will be accounted for as *part* of an existing asset.

11 The stripping activity asset's classification as a tangible or intangible asset is the same as the existing asset. In other words, the nature of this existing asset will determine whether the entity shall classify the stripping activity asset as tangible or intangible.

Initial measurement of the stripping activity asset

12 The entity shall initially measure the stripping activity asset at cost, this being the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. Some incidental operations may take place at the same time as the production stripping activity, but which are not necessary for the production stripping activity to continue as planned. The costs associated with these incidental operations shall not be included in the cost of the stripping activity asset.

13 When the costs of the stripping activity asset and the inventory produced are not separately identifiable, the entity shall allocate the production stripping costs between the inventory produced and the stripping activity asset by using an allocation basis that is based on a relevant production measure. This production measure shall be calculated for the identified component of the ore body, and shall be used as a benchmark to identify the extent to which the additional activity of creating a future benefit has taken place. Examples of such measures include:

(a) cost of inventory produced compared with expected cost;

(b) volume of waste extracted compared with expected volume, for a given volume of ore production; and

(c) mineral content of the ore extracted compared with expected mineral content to be extracted, for a given quantity of ore produced.

Subsequent measurement of the stripping activity asset

14 After initial recognition, the stripping activity asset shall be carried at either its cost or its revalued amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part.

15 The stripping activity asset shall be depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied unless another method is more appropriate.

16 The expected useful life of the identified component of the ore body that is used to depreciate or amortise the stripping activity asset will differ from the expected useful life that is used to depreciate or amortise the mine itself and the related life-of-mine assets. The exception to this are those limited circumstances when the stripping activity provides improved access to the whole of the remaining ore body. For example, this might occur towards the end of a mine's useful life when the identified component represents the final part of the ore body to be extracted.

Appendix A
Effective date and transition

This appendix is an integral part of the Interpretation and has the same authority as the other parts of the Interpretation.

NZ A0 This Interpretation applies to Tier 1 and Tier 2 for-profit entities.

A1 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact.

NZ A1.1 *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

A2 An entity shall apply this Interpretation to production stripping costs incurred on or after the beginning of the earliest period presented.

A3 As at the beginning of the earliest period presented, any previously recognised asset balance that resulted from stripping activity undertaken during the production phase ('predecessor stripping asset') shall be reclassified as a part of an existing asset to which the stripping activity related, to the extent that there remains an identifiable component of the ore body with which the predecessor stripping asset can be associated. Such balances shall be depreciated or amortised over the remaining expected useful life of the identified component of the ore body to which each predecessor stripping asset balance relates.

A4 If there is no identifiable component of the ore body to which that predecessor stripping asset relates, it shall be recognised in opening retained earnings at the beginning of the earliest period presented.

Appendix B
Amendments to NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2013. If an entity applies this Interpretation for an earlier period these amendments shall be applied for that earlier period.

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The amendments contained in this appendix when this Interpretation was issued in 2011 have been incorporated into the relevant pronouncements.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ Equivalent to IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

This table lists the pronouncements establishing and substantially amending NZ IFRIC 20. The table is based on amendments approved as at 31 January 2019.

Pronouncements	**Date approved**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ Equivalent to IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*	Dec 2011	Early application permitted	1 Jan 2013
Framework: Tier 1 and Tier 2 For-profit Entities[2]	Nov 2012	Early application permitted	1 Jan 2013
Amendments to References to the Conceptual Framework in NZ IFRS	May 2018	Early application permitted	1 Jan 2020

Table of Amended Paragraphs in NZ IFRIC 20		
Paragraph affected	**How affected**	**By … [date]**
References	Amended	*Amendments to References to the Conceptual Framework in NZ IFRS* [May 2018]
Paragraph NZ A1.1	Added	*Framework: Tier 1 and Tier 2 For-profit Entities* [Nov 2012]

[2] This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.